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C O N F I D E N T I A L CARACAS 002487

SIPDIS

STATE FOR WHA/AND
NSC FOR CBARTON
TREASURY FOR OASIA-GIANLUCA SIGNORELLI
HQ USSOUTHCOM FOR POLAD

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)
SUBJECT: ECONOMY ON UPSWING AS REFERENDUM DRAWS NEAR

REF: A. CARACAS 1554

- [¶B.](#) CARACAS 2034
- [¶C.](#) CARACAS 2198
- [¶D.](#) CARACAS 2365

Classified By: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASON 1.5 D

SUMMARY

[¶11.](#) (SBU) In accordance with a decree issued by President Chavez in May, the minimum wage rose 10% on August 1, after having increased 20% on May 1. Meanwhile, the parallel dollar rate remains steady at lower levels than before, much more foreign currency is available than at any time since exchange controls were instituted, and Venezuelan oil prices continue to hover near record levels, which has facilitated a significant increase in government spending. Some business activity may be slowing down, as retailers in particular face pre-referendum jitters. But two weeks before the referendum, President Chavez could hardly ask for anything more from the economy, given its structural flaws.

THE GOVERNMENT KEEPS GOING FOR STIMULUS

[¶12.](#) (U) August 1 marked the implementation of a 10% increase of the minimum wage to 321,235.20 bolivars per month, the second and last phase of a May presidential decree that raised it 20% at that time (ref a). This puts it ahead of inflation, which according to GOV figures is running at 12.6% for the year to date. The new minimum wage, USD 167 per month at the official exchange rate, however, is still 0.3% less than the most recent (June) official value of the basic food basket for a family of five.

[¶13.](#) (SBU) Meanwhile, there are plenty more US dollars available in the economy, thanks to the Commission for Foreign Exchange Administration (CADIVI). June liquidations by the Central Bank, while only 46% of what CADIVI approved, were still 56% greater than in May, and preliminary July results are show a pace to more than double June. This may be a temporary surge only, as the GOV just increased (from USD 2000 to 3000) the amount Venezuelans traveling abroad can spend each calendar year, and also approved up to USD 1500 annually for purchases via the internet. Since this has just taken effect, this amount may be high as people rush to take advantage. (Caracas newspapers are full of advertisements from banks selling debit cards to allow consumers to access these dollars.)

[¶14.](#) (U) The GOV is even more directly involved, with spending growing briskly. (See ref c.) In just the first two weeks of July, primary government spending was equal to the entire amount spent in April of this year (USD 1.4 billion), and three-quarters of what was spent in June. Budgeted primary spending for all of 2004 was only USD 18.0 billion (1.5 billion per month) at the current exchange rate. The GOV is giving no sign that it will stop soon, as it has recently announced USD 364 million will be spent from the new PDVSA social fund (ref b).

WHILE THE REST OF THE ECONOMY MOSTLY COOPERATES

[¶15.](#) (U) Other economic indicators show good news, as well. The parallel exchange rate continues to appear strong for the government, as it has fallen fully half the distance from its high of 3350 in early March to its current rate of 2620. While up a bit from 2525 in early July, it has remained close to its current level for about two months. This is somewhat surprising, considering that monetary liquidity has increased 10% over roughly the same period. It is partly attributable to oil prices, which continue to float at record levels, putting the average price for the Venezuelan basket of crudes at USD 35.71 per barrel, the highest price of 2004. The

average price for 2004 to July 17 was USD 30.66. The Venezuelan stock market is booming, up over 22% in 2004 after a 177% climb in 2003. CANTV, the principal Venezuelan phone

company, announced on July 29 that its second quarter revenues increased over 15% since 2003, and looking up in the future, as rate increases had just been approved by the GOV.

¶16. (SBU) There are, however, some signs that some economic activity is being adversely affected by the lead-up to the recall referendum. An executive with a U.S. bank which handles correspondent banking relationships for several Venezuelan banks (principally letters of credit for imports) said that in the last two weeks business had begun to slacken. Similarly, a businessman whose firm produces cosmetics advised us that orders were off. Both individuals suggested that retailers were not re-stocking supplies for the time being, mainly because of a fear that post-referendum violence could lead to some of that stock being destroyed by looters.

COMMENT

¶17. (C) Combined with the recent VAT tax reduction (ref d) (which, though passed into law, has yet to take effect since it has not been published in the Official Gazette), the aggressive government spending and increased foreign exchange conversion demonstrate that Chavez is pulling out all the short-term stops to create an atmosphere of economic well-being ahead of the referendum. With oil prices so high, he can afford it. Any throttling back will have to await the end of the current cycle of political events (referendum, a possible presidential election, gubernatorial elections), and/or a break in oil prices.

Shapiro

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